

Message Text

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44

ACTION XMB-07

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 5662

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E.O. 11652: N/A

TAGS: ETRD, ETRN, UY

SUBJ: EXIM LOAN FOR RAILROAD ENGINE RECONSTRUCTION

PLEASE PASS EXPORT-IMPORT BANK

1. ON DECEMBER 4, ADMINISTRACION DE FERROCARRILES DEL ESTADO (AFE), SIGNED LETTER INTENT WITH ALCO ENGINES DIVISION, WHITE INDUSTRIAL POWER INC., OF AUBURN, NEW YORK FOR TOTAL \$1.8 MILLION FOR RECONSTRUCTION AND MODERNIZATION RAILROAD LOCOMOTIVES, SPARE PARTS, AND EQUIPMENT.

2. ACCORDING ALCO VICE PRESIDENT GEIGER, ALCO IN SPETEMBER 73 OBTAINED PRELIMINARY COMMITMENT FROM EX IM BANK FOR SHARE IN \$1.2 MILLION PACKAGE FOR ENGINE RECONSTRUCTION AND SPARE PARTS WHICH IS EXPIRING DECEMBER 31.

3. AFE LETTER DESCRIBES FOLLOWING FINANCING PACKAGE TO BE OBTAINED BY ALCO.

A) DOWN PAYMENT 15 PERCENT (\$270,000)

B) REMAINING 85 PERCENT FINANCED OVER 5 YEARS SHARED AS FOLLOWS:

I) COMMERCIAL BANK 50 PERCENT (\$765,000)

II) EXIM BANK 45 PERCENT (\$688,000)

III) ALCO 5 PERCENT (\$ 76,500)

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TOTAL 1,800,000

C) INTEREST RATES:

- I) COMMERCIALBANK 9 1/4 PERCENT
- II) EXIM AND ALCO 6 PERCENT
- III) FEE 1/2 PERCENT ANNUALLY ON UNUSED CAPITAL FROM CONTRACT DATE.

4. AFE AND ALCO HAVE ASKED EMBASSY REPORT DEVELOPMENT TO EXIM BANK AND TO SUPPORT URGENT CONSIDERATION APPLICATION WHICH WILL BE SUBMITTED SHORTLY BY ALCO FOR INCREASED FINANCING AND PROBABLY EXTENSION COMMITMENT DATE.

5. EMBASSY STRONGLY SUPPORTS THIS APPLICATION FOR FOLLOWING REASONS:

A) AFE HAS SHOWN CREDIT RESPONSIBILITY IN CASH PAYMENTS AND OTHER WISE FULFILLING CLAUSES OF CONTRACT SIGNED WITH ALCO IN 1970, ALCO CLAIMS RECONSTRUCTED ENGINES WILL PAY FOR THEMSELVES IN OPERATING SAVINGS OVER LIFE OF FINANCING.

B) AFE HAS RECEIVED AUTHORIZATION GOU PROCEED ON MODERNIZATION RAILROADS WHICH WILL PROVIDE EXPORT OPPORTUNITIES U.S. SUPPLIERS FOR NEXT SEVERAL YEARS. APPROVAL FINANCING WILL ENHANCE U.S. POSITION IN OBTAINING FUTURE SALES.

C) OF 50 ALCO LOCOMOTIVES SUPPLIES IN 1944 ONLY 18 ARE OPERATING. PROPOSED CONTRACT WILL ADD ADDITIONAL 10. UPON CONCLUSION CONTRACT, ADDITIONAL ENGINES MAY BE ADDED.

D) NEW MANAGEMENT AFE HAS PROVED VIGOROUS IN RESTORING MORALE AND SERVICE OF IMPORTANT STATE SERVICE. RECONSTRUCTED ENGINES VITAL PART OF PLAN TO REFORM RAILROADS APPROVED AT HIGH LEVEL GOU MEETING IN OCTOBER.

E) ALCO HAS MANAGED HOLD OFF COMPETITION FOR CONTRACT FROM THIRD COUNTRY COMPETITION. IF FINANCING FAILS, AFE MAY TURN ELSEWHERE FOR SERVICES.

F) LAST EX-IM LOAN IN URUGUAY WAS IN MARCH 1971 (FOR AIRCRAFT). NEW LOAN WOULD PUBLICICZE AVAILABILITY EX-IM SERVICES TO URUGUAYAN BUYERS. AS URUGUAY APPEARS TO BE ENTERING PERIOD WHERE IMPORTS WILL BE GREATLY UNCLASSIFIED

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INCREASED TO SUPPORT DEVELOPMENT PROGRAM, U.S. SALES OPPORTUNITIES WILL BE ENHANCED BY EX-IM FINANCING.

6. EMBASSY WOULD APPRECIATE EX-IM BANK VIEWS ON PROPOSED PACKAGE.
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